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CONSUMER MARKETS

CFO Insights: A global survey of Consumer Markets executives

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KPMG INTERNATIONAL

A report prepared by
KPMG and
CFO Research Services

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Foreword

KPMG International is pleased to present *CFO Insights: A global survey of Consumer Markets executives*. This survey of just under 300 senior finance executives from consumer markets companies around the world examines the current state and future outlook for companies in the retail, food, drink, and consumer goods sectors.

We began this research at the onset of 2011 by commissioning a study through CFO Research Services to capture senior finance executives' views on the current state of business and profits in the wake of the economic downturn, their performance expectations, and the steps they are likely to take to achieve their financial and operating goals in the year ahead.

Shortly after launching the first phase of our survey, democratic movements in North Africa and the Middle East introduced renewed uncertainty to global trade, energy, and financial markets. Then in March, an earthquake in Japan brought the prospect of even further volatility and disruption to business activity around the world.

Accordingly, we went back to the market in early April with a supplementary survey to gauge and include the executives' views on the impact of these current events on their businesses.

In the pages ahead, we share the findings from both phases of the survey, revealing the executives' perspectives on prospects for growth and opportunity, threats to market share and margins, and strategies for success. The results further disclose how shifts in demographics and consumer behavior, and changes in the market and operating conditions, are expected to impact consumer companies in both the short and long term.

Recovery and growth

China, after years of sustained investment, modernization, improvements in logistics and communications, and political change, has become the world's second largest economy. This surge in growth in China, as well as in other developing nations, has positioned consumer markets companies in emerging markets to prosper.

In the more developed economies of the United States, Canada, and Europe, finance executives see more tepid growth in the coming years. The economic recovery underway in these mature markets is driven, we believe, as much by external stimulation as by a natural correction of markets or an organic reemergence of consumer spending. Although manufacturers and retailers in the developed world expect to see near-term growth primarily in their domestic markets—aided in all likelihood by the wealth effect of rising asset prices—it also comes as little surprise that they see the greatest opportunities for growth outside of their own regions in China, India, and other developing nations.

Profit margin sustainability

In the wake of the recession, many companies that implemented cost-containment and efficiency improvements say they emerged in a leaner and stronger, or unchanged, position.

Rising energy, input, and merchandise costs—identified by 60 percent of respondents as the costs most likely to be affected by the Middle East and Japan crises over the next 12 months—will put renewed pressure on margins.

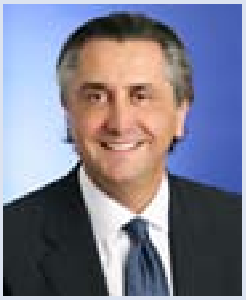
Companies will need to effectively respond to these rising costs, as well as changes in consumer spending, including increased cost-consciousness and resistance to debt. Success will lie in companies' abilities to sustain margin enhancement improvements, as well as innovate both their products and business models.

Shifting demographics and consumer behavior

China continues to move from an export to a consumption economy; and significant increases in the growing middle class and consumer base in emerging economies, as well as reemergence of demand in the developed world, are expected to increase overall consumption of consumer goods. This growth in consumption is unlikely to be shared equally among all manufacturers and retailers. The companies that prosper will respond successfully to regulatory pressure, an aging population, widespread use and influence of technology among consumers, and the public's increasing appreciation of health, and the environmental and social impact of their purchasing decisions.

The world's consumer markets and the companies that serve them are positioned for growth after a sustained downturn. But the industry is constantly changing, and there are few simple answers to the complex challenges that lie ahead for these companies. Retailers and manufacturers alike will need to consider carefully how their markets, competitors, and suppliers have been transformed in recent years and how they can adapt their own operations and strategies to respond to these changes.

We would like to thank the executives who participated in this study and we hope the findings are useful as you address the challenges and opportunities you face. We at KPMG welcome the opportunity to discuss this study and its implications for your business in the years ahead.



Willy Kruh
Global Chair
Consumer Markets
KPMG

Executive summary

The worst of the economic downturn may well be over, but broad demographic and financial forces continue to alter economic activity around the world—at the macroeconomic level, at companies, and among consumers.

In Asia-Pacific, rising personal incomes are providing great opportunity for domestic consumer growth, but are also eroding much of the Far East's labor cost advantage. In Europe, companies are struggling to come to terms with the maturation of economic and monetary integration among diverse national economies. And in North America, recovery from the recession is underway, but full employment and robust growth remain elusive.

The forces that helped to produce a boom in consumer activity in the years leading up to the recent downturn remain firmly in place. Improvements in communications, technology, and logistics continue to expand opportunities for international trade and for sellers to connect with consumers. Rising prices for food, energy, and other commodities are generating uncertainty, however, regarding continued recovery in consumer markets around the world. And in the first quarter of 2011, expansion in emerging markets and recovery in the industrialized world was complicated by political unrest in the Middle East and North Africa (MENA), and the earthquake, tsunami, and power plant crisis in Japan.

In this study, we asked senior finance executives from some of the world's leading consumer markets companies about the impact that a range of external factors and consumer trends are having on their businesses. Through this research, we gained deeper insight into what the consumer industry might look like, globally and regionally, in the years ahead.

Highlights from the study

Most companies report resilience to the impact of the MENA and Japan crises.

- 64 percent of companies report little or no impact of the crises on their business operations
- 61 percent of respondents see increases in energy, input, and merchandise prices as the most significant short-term impact
- 41 percent of companies see price volatility in energy prices as the most likely long-term impact

Consumer demand is expected to rise and company performance will improve in 2011.

- The majority (76 percent) of respondents see an increase in consumer spending in their target markets in 2011
- Consumer demand is expected to rise first in emerging markets, followed by the more developed nations of Europe and North America
- Substantial increases in sales are most likely to come from BRIC countries
- Consumer businesses foresee strongest growth in their domestic markets and the Asia-Pacific region
- 67 percent see the growth of the middle class in emerging market economies as having a positive impact on their businesses over the next five years
- 60 percent see a positive impact from increased use among consumers of information and communications technology

Rising merchandise and input costs—coupled with pricing pressure from competitors—place profit margins at risk.

- Asia-Pacific is the region most concerned about its ability to raise prices
- 60 percent of all respondents agree that they will have difficulty raising prices and 45 percent agree they will have difficulty sustaining profit margins in 2011
- Cost of inputs and merchandise are seen as the greatest threat to profitability, followed closely by discounting and other sales incentives
- Approximately 50 percent of respondents have seen a rise in the cost of compliance with health, food and safety, health care, and environmental and sustainability regulations in the past year

In this study, we asked senior finance executives from some of the world's leading consumer markets companies about the impact that a range of external factors and consumer trends are having on their businesses.

Finance executives see their firms in a healthy financial and operating condition, and see opportunities for growth, expansion and increased efficiency.

- 50 percent say they are in a better position following the downturn in terms of cost structure, growth prospects and relationships with suppliers
- 25 percent are very likely to merge with or acquire other companies in 2011
- Organic growth is the primary strategy for growth for over 50 percent of respondents
- Marketing and product innovation is expected to contribute substantially to success, but cost control remains top-of-mind with senior finance executives
- Opening new stores and adding distribution channels (including online) are the most likely strategies for entering new markets in 2011
- Companies are most likely to improve supply chain efficiency by taking incremental steps with new technology, inventory management, and supplier consolidation
- Larger companies are more likely to substantially restructure their lines of business or organizations than the relatively smaller companies surveyed

Crisis in the Middle East, North Africa, and Japan: Consumer businesses respond

Less than three years since the foundations of the world economy were shaken by the most serious global financial crisis since the Great Depression, the emblem of our rapidly globalizing, fiercely competitive world seems to be volatility. Change materializes rapidly, with little warning—and businesses and individuals around the world must learn to adapt.

If volatility is the watchword of our era, the first few months of 2011 have seen more than their share of it. Since the beginning of 2011, the governments of Tunisia and Egypt have fallen in the wake of largely peaceful, populist uprisings. Protests and violent conflict have erupted in the Middle East and North Africa (MENA)—in Libya, Algeria, Bahrain, Syria, and Iran. Then, in March, a massive earthquake off the coast of Japan generated a tsunami that devastated much of that nation's northeast coastal region and triggered a crisis at a large nuclear power plant that remains unresolved more than a month later.

The human cost of conflict and devastation on this scale is, of course, incalculable. At the same time, recent events are likely to have broad-reaching social, political, and economic impacts that will affect consumer businesses in the years ahead: economic growth, commodity and energy prices, the flow of goods and services, and consumer demand. Accordingly, the second phase of this study focused on finance executives' views on how these recent events are affecting their businesses—and how their companies plan to respond.

Limited impact so far—but concern about future price volatility

As of early April 2011, the recent crises in MENA and Japan seem to have had a relatively minor impact on the operations of consumer businesses, according to 162 finance executives around the world who completed the second phase of our survey. Across the population, 64 percent of respondents report little or no impact on their business operations, while 31 percent report a moderate impact and only 5 percent have seen a dramatic impact.

Looking forward over the next year, survey respondents expect input prices will be most affected by the turmoil in MENA and Japan. When presented with an array of issues, 61 percent say they expect "energy, input, and merchandise prices" will be most affected by recent crises, followed distantly by the "availability of goods and services from my company's suppliers" (35 percent).

Responses to open-ended questions also reveal finance executives' concerns about rising commodity and oil prices, increased volatility, and supply-chain disruptions. "We are starting to see price increases on our product inputs," says the CFO of a North American agribusiness company, "and these cost increases have not been successfully passed on to our customers. The end result: lower margin on our products and less net income." Increasing commodity and energy prices are also likely to depress already-shaky consumer demand, respondents say, while increased volatility raises the cost of hedging and creates pricing challenges. Meanwhile, companies that have come to rely on highly efficient supply chains are being stopped in their tracks by disruptions in supply and, to some extent, transportation. The CFO of a multi-billion dollar food-and-beverage manufacturer, for example, says that his company has experienced "supply and manufacturing disruptions in these geographies and concerns about food safety from products originating in Japan." Disruptions in sourcing from Japan are becoming more acute as the nuclear crisis in Japan wears on.

Survey results confirm that many finance executives see price volatility—particularly volatility in energy prices—as a likely long-term effect of the recent turmoil. Forty-one percent of all respondents see volatility in energy prices as a "long-term impact" (at least six months) of the recent crises (see Figure 1). At the same time, survey results suggest that finance executives perceive a local dimension to the crises. For example, respondents most frequently say that the impact of recent crises is most likely to have a long-term impact on economic growth in Asia and along the Pacific Rim—the epicenter of the recent earthquake is also the epicenter of its long-term economic consequences.

Consumer businesses respond by improving their risk-management policies and base of suppliers

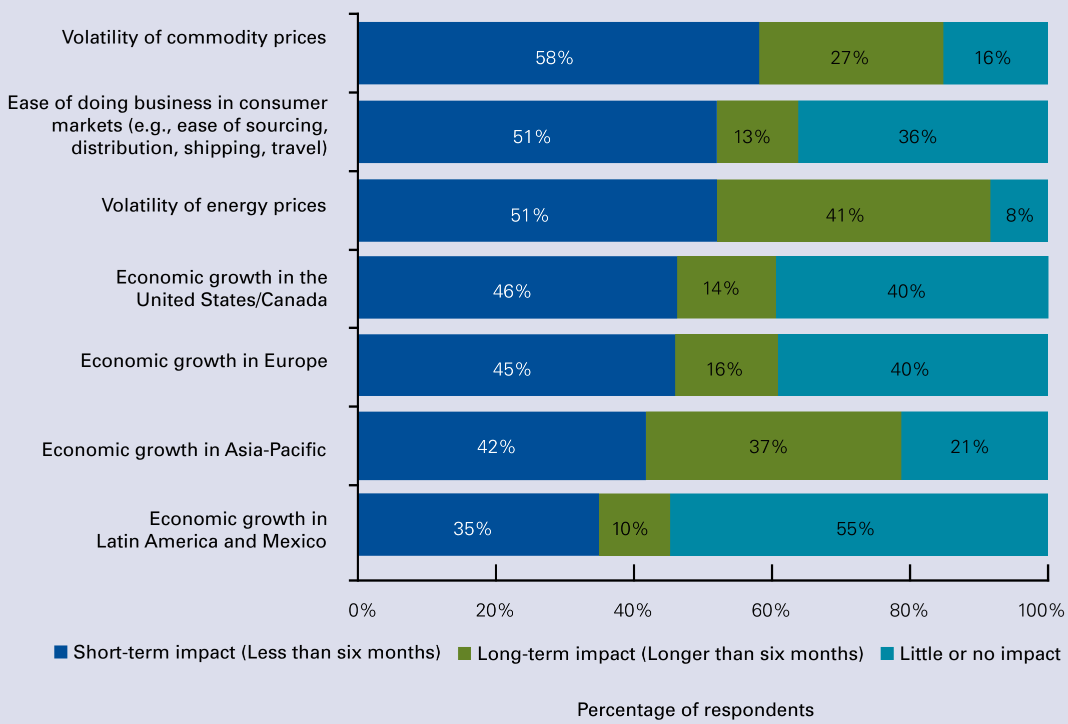
Survey results indicate that companies will work to improve their management of both risk and suppliers in response to recent events. Respondents most often cite their companies' "supplier base," encompassing both primary and secondary suppliers (37 percent), followed by "risk management and hedging policies" (36 percent) among the items they're mostly likely to change in the next year as a result of recent turmoil. Other business dimensions, including "inventory-management policies" (23 percent), plans for market expansion (20 percent), and business-continuity plans (17 percent) follow distantly. "From a risk-management perspective," says the treasurer of a North American retailer, "global events affect exposures more now than in the past as a result of greater interdependencies."

In response to an open-ended question seeking advice on how to respond to the recent turmoil effectively, finance executives suggested a disciplined, well-informed, proactive approach. One senior finance executive from an Asian consumer products company advises his peers to "Take forward covers for all forex transactions. Expect volatility in short-to-medium term. [Ship] to the Middle East/North Africa only against advance payments or confirmed letters of credit." A director of finance from a consumer goods company in Europe writes, "Be very aware of your priorities. Issues that [draw] major press interest need not be important to you. However, also be aware of the real vulnerabilities (including small, secondary suppliers)."

Unsurprisingly, however, finance executives around the world caution against panic. The controller of a large European consumer company writes, "Do not change your overall strategy for these markets until you really know what went wrong, and what may be long-term consequences coming from the crisis. Do not over-react." The CFO of a North American retailer echoes that point of view: "Focus on strategic impacts, if any, not the short-term disruptions. The short term will be much more visible and likely to evoke reaction, but long-term planning will give you a competitive advantage versus your more shortsighted competitors."

At the same time, finance executives say, competitive advantage also flows from being swifter, more flexible, and more adaptable in the face of meaningful change. "Maintain an agile posture [versus] the macro-environment through contingency and scenario planning," writes a finance executive at a large North American consumer goods company. A VP of finance at a European consumer products company urges his peers to "Understand [the] impact that change in consumption will have on your business, and then act quickly to offset lost revenue and cash." Ultimately, balance and good judgment are the markers of an effective response to sudden turmoil.

Figure 1. In your opinion, what impact will the recent turmoil in the Middle East/North Africa and/or the crisis in Japan have on the following items?



New modes of growth for consumer businesses

Outlook for growth

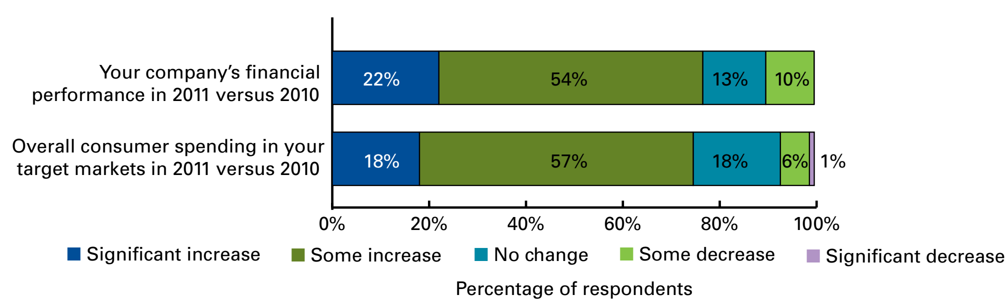
These and other forces set the stage for consumer-focused businesses in 2011, and, according to the 291 senior finance executives surveyed in the first phase of this study, this will be a year of top-line growth as well as operational transition for the industry. We queried finance executives on their expectations for overall consumer spending in their target markets in 2011. A solid majority of respondents foresee an increase in spending. Respondents are similarly optimistic about their own companies' prospects for 2011: 22 percent of respondents expect a significant improvement in company performance, and 54 percent expect some improvement (see Figure 2).

Respondents from different regions and different consumer-focused sectors perceive their opportunities and their prospective performance differently. Eighty-one percent of finance executives from the Asia-Pacific region anticipate at least some increase in consumer spending in their target markets in the next year, and 83 percent expect their companies' financial performance to improve in 2011. Respondents from Latin America and Mexico expect market and company-level growth in similar proportions—90 percent for both consumer spending and for improved company performance. In the United States and Canada, respondents are also likely to look forward to growth in consumer spending (76 percent) and in their companies' financial performance (86 percent). European respondents, however, are substantially less likely to expect growth in either consumer spending (57 percent) or in financial performance (54 percent).

Consumer demand will rise first in Latin America/Mexico and Asia-Pacific—then in North America and Europe, according to finance executives.

Figure 2. Finance executives foresee growth in consumer spending and improved company performance in 2011.

What are your expectations for your company's financial performance in 2011 compared with 2010?
What are your expectations for overall consumer spending in your target markets in 2011 compared with 2010?



Recovery by region

In another question, a majority of respondents from the emerging economies anticipate a sustained increase in demand before mid-2011, while those in the industrialized economies are more likely to expect an increase in demand in the second half of 2011 or later (see Figure 3).

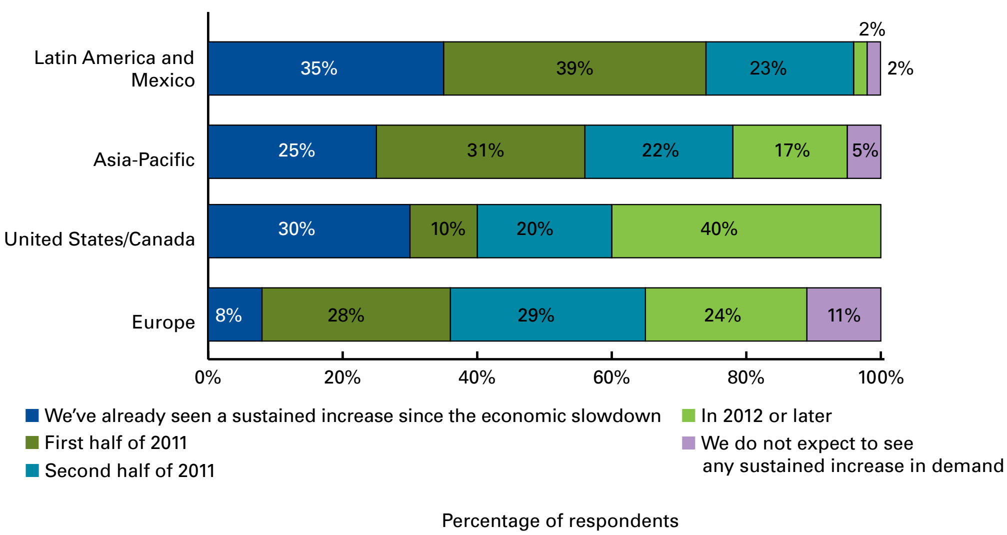
It is interesting to consider why respondents from the emerging markets—those from Asia-Pacific and Latin America and Mexico—hold such optimistic views, while their peers in Europe (and to a lesser extent the United States and Canada) have a relatively pessimistic outlook. The economic downturn certainly contributes to the divergence of views to some extent. Industrialized nations experienced the downturn more acutely—and, by definition, they tend to grow more slowly than developing economies. For this reason, executives from the industrialized economies may perceive a deeper hole out of which their economies must climb.

The emerging economies in this survey, however, may well benefit from an earlier reemergence in consumer demand in not one but two ways—first as a producer of exports, and second as a provider of goods to their growing domestic markets (which are driven in turn by rising personal incomes in these regions). Growth in demand among companies in emerging markets tends to precede demand in industrialized markets, as manufacturers place orders for intermediate goods and retailers build inventories of finished goods to prepare for an upswing.

Companies in emerging markets are also enjoying the benefits of rising household incomes, increasing consumer base, and populations—as consumers are able to live more abundant lives, demand for consumer products grows. Local and regional manufacturers—with local market knowledge and ready access to logistics and business infrastructure—are particularly well equipped to meet this domestic demand.

Figure 3. Emerging economies see demand rise before industrialized economies do.

When do you expect to see a sustained increase in demand for your company's products and services?



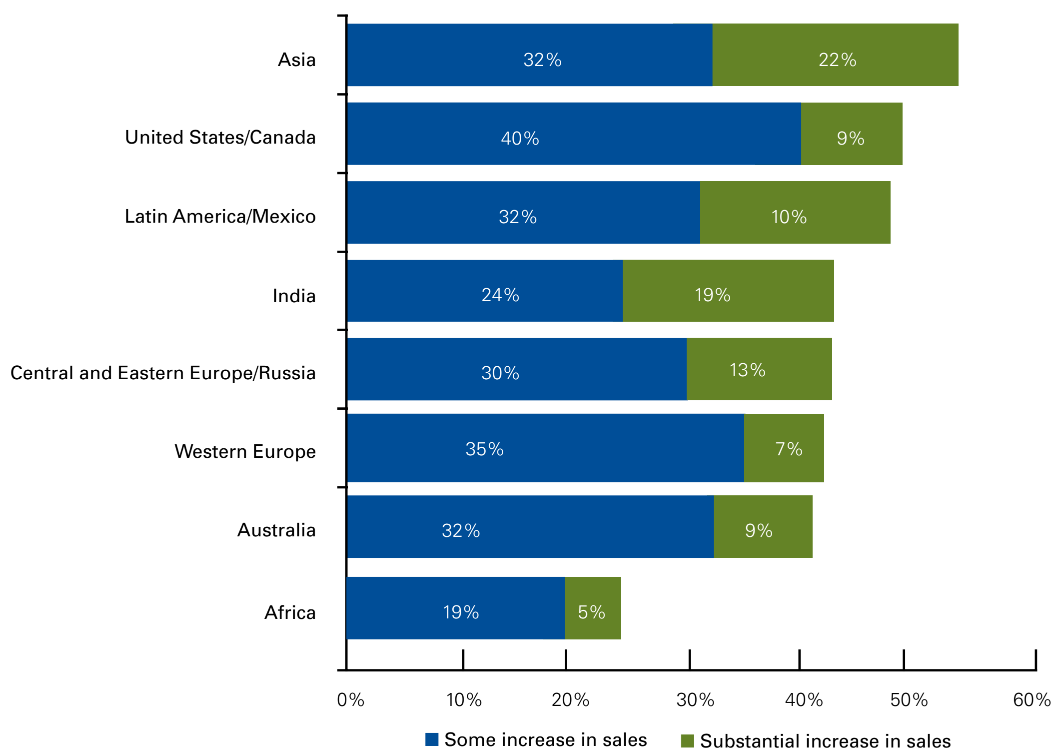
Geographic growth profile

Although the United States/Canada region is the second most likely region to provide revenues for the companies surveyed, it is interesting to observe that the emerging BRIC (Brazil, Russia, India, and China) countries are in the regions that represent the other four of the five geographic regions with the most growth potential. Figure 4 shows the countries where respondents said they expect to see some or substantial growth in sales in 2011. Further, the BRIC countries are in regions where a 'substantial increase in sales' is anticipated, each with response levels in the double digits.

Also noteworthy is the role that Asia will play in the growth of sales among respondents' companies in all regions. Survey results indicate that consumer companies are most likely to see growth opportunities in 2011 in their domestic and adjacent markets, followed next by the emerging economies, most notably Asia. Among Latin American and Mexican respondents, 40 percent see substantial or some growth in sales into Asia; 50 percent of European respondents foresee sales growth into Asia, and in the United States and Canada, 58 percent expect substantial or some growth of sales into Asia.

Figure 4. Countries where respondents said they expect to see some or substantial growth in sales in 2011.

How much growth in your company's sales do you anticipate in 2011 in each of the following countries/regions?



Percentage of respondents who say they anticipate a substantial or some increase in sales in each specified country or region

Sector level analysis further reinforces the role of the Asia-Pacific and Latin America/Mexico markets in consumer business growth in the year ahead. In all sectors but one (restaurants and food services), survey respondents ranked Asia-Pacific as one of the top three sources of increased sales growth in 2011. (Latin America and Mexico are among the top three sources of growth in 7 of the 10 sectors.) The data confirms the impact of the power of rising incomes and the growing middle class in the developing world. Consumers in Asia-Pacific are expected to purchase more food and drinks of all types, along with clothing, luxury goods, and other consumer products. Respondents from the restaurant and food service sectors expect most of their growth to come from Latin America and Mexico, India, and Central and Eastern Europe.

Companies are most likely to see any "substantial" increases in sales coming from the BRIC countries.

Margin pressure, demographic change, and regulation

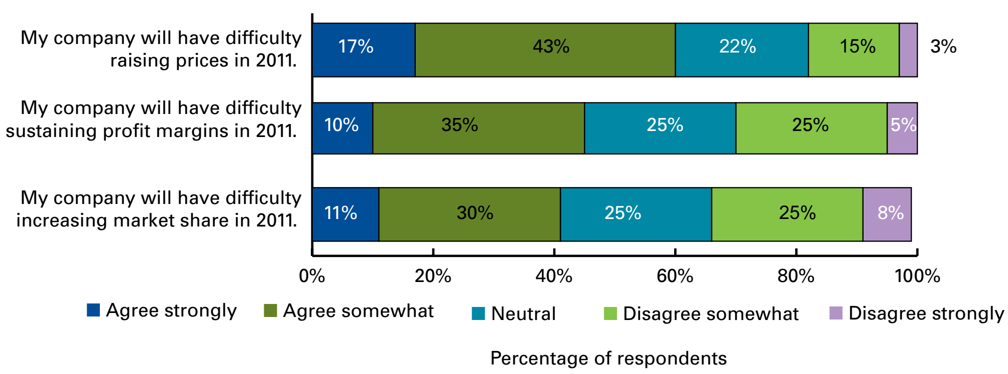
The growth profile for consumer businesses in 2011 comprises opportunities in local and adjacent markets and in emerging economies. But consumer companies won't grow in the years ahead simply by satisfying renewed consumer demand. Supply- and demand-side pressures will constrain companies' ability to take full advantage of consumer market opportunities. While finance executives show optimism for consumer demand and their companies' performance in 2011, their enthusiasm is tempered with concern for their ability to raise prices, maintain margins, and increase market share. In particular, respondents are most likely to see difficulty in raising prices, as shown in Figure 5.

Difficulty in raising prices

Respondents from Asia-Pacific are more concerned about their ability to raise prices in the near term than are their peers from elsewhere in this study. Seventy-three percent of respondents from Asia-Pacific agree somewhat or strongly with the statement "My company will have difficulty raising prices in 2011," while 66 percent of respondents from Europe hold this view. (Fifty-five percent of US/Canadian respondents and 44 percent of those from Latin America and Mexico agree with this statement.)

Figure 5. Despite growth in consumer demand, a majority of finance executives say they'll have difficulty raising prices.

To what extent do you agree or disagree with the following statements?



Why would a widespread increase in consumer demand be accompanied by an inability to raise prices? This seems to run counter to basic economics where increased demand would be expected to drive prices up. The concern we see for price inelasticity, however, may well be rooted in surplus capacity among manufacturers and retailers that have endured the economic downturn and now have begun to compete in growing consumer markets. Thus, while demand may be on the rise, so too is competition for consumers' attention and purchasing power. And although the trend in consumer aversion to credit seems now to be on the decline, the cost-consciousness adopted by consumers during the recession still makes it difficult to raise prices, even if they may be buying more.

Respondents from Europe, the United States and Canada, and Latin America and Mexico are more likely to foresee sales growth in the Asia-Pacific region than other regions, which suggests their companies are entering or expanding in this high-growth region. Respondents from the Asia-Pacific region, meanwhile, are the most concerned about their ability to raise prices, which may reflect the impact of global companies' enthusiasm for Far Eastern markets.

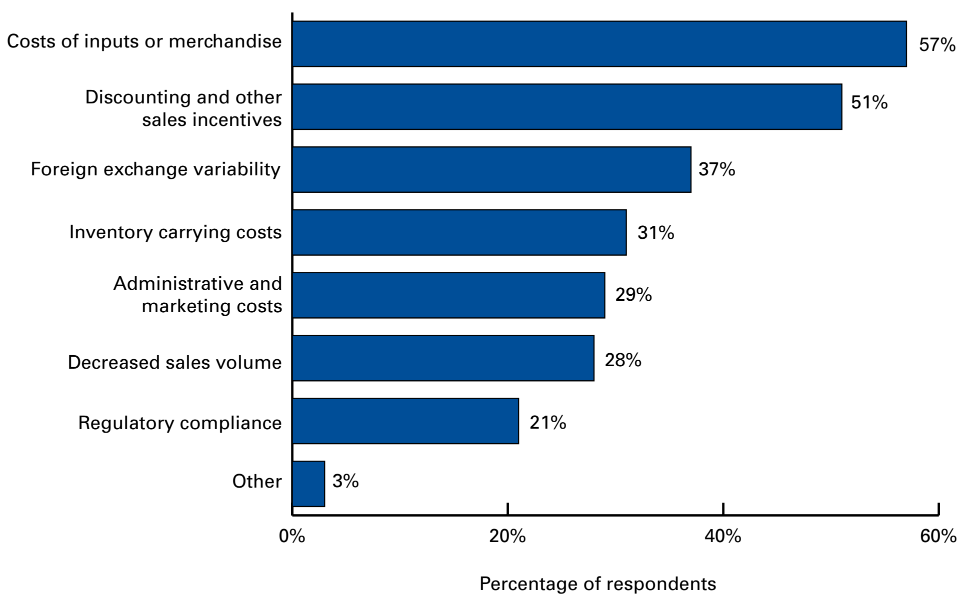
Threats to margin sustainability

Data on threats to profit margins helps to shed further light on the constraints that companies will face as they seek to take advantage of growth in consumer markets. We asked finance executives to choose the three most formidable threats to their profitability from a list of costs and risks, as shown in Figure 6. By a wide margin, finance executives identify the cost of inputs and merchandise as a threat to profitability, followed closely by discounting and other sales incentives—tactics that further confirm the difficulties finance executives see in raising prices in the year ahead.

Sixty percent of respondents agree that they will have difficulty raising prices and 45 percent agree they will have difficulty sustaining profit margins in 2011.

Figure 6. Concerns about cost and price discounting are the most pressing threats to margins.

In your opinion, which three of the following items will pose the greatest threat to your company's profit margins in 2011?



Respondents from each of the regional segments identify the costs of inputs or merchandise as one of their greatest threats, including more than 70 percent of executives from the United States and Canada. Respondents from three of the regions—Asia-Pacific, Europe, and the United States and Canada—identify the cost of inputs, discounting and sales incentives, and foreign exchange variability as the most common threats to their companies' margins. In Latin America and Mexico, however, respondents are most likely to identify inventory carrying costs and administrative costs—along with input and merchandise costs—as formidable threats. (As we'll see later in this report, finance executives in Latin America and Mexico also anticipate that their companies will make changes—for example, outsourcing manufacturing to low-cost markets—that will help to mitigate these threats.)

Responding to changing demographics

To prevail in consumer markets, companies will need to do even more than manage costs effectively and address pricing and discounting threats. In several questions throughout the survey, respondents reveal how external factors will temper their ability to capture gains both in top-line revenue and profits. They identify three trends among consumers as the most likely to have a negative effect on their businesses over the next five years. Chief among them is the "greater consumer focus on savings (and less buying on credit)," which 34 percent of finance executives anticipate will have a negative impact on their businesses. (Although 37 percent say this trend will actually have a positive impact.) Twenty-seven percent of respondents identify "lower consumption of luxury goods and services" as having a negative impact on their businesses, while 24 percent anticipate that aging populations will hamper their companies' future growth. (Other trends, such as an increase in consumer interest in safety and health, greater awareness of corporate social responsibility, and shifts toward online rather than in-store shopping, are less likely to have a negative effect in the medium term.)

These external factors and their negative effects are especially disruptive because often there's little a company, regardless of its scale or scope, can do to change them immediately. If consumers eschew credit and boost their rate of personal savings, there's not much a manufacturer or retailer can do to respond in the short term. Similarly, there's nothing to be done about an aging population, although a company's long-term response can include tuning its offerings to this expanding demographic. Similarly, luxury companies faced with customers shifting away from their high-end goods and services may, over time, be able to develop new lines aimed at a cost-conscious market.

Reacting to these demographic trends and to a highly competitive consumer business environment will call on companies to develop new products that consumers want, to understand markets more completely, to expand operations to outside familiar geographic territories and demographic zones, and to achieve the right combinations of scale, scope, and collaboration with upstream and downstream members of their supply chains. And companies will have to do so while complying with regulations that affect the core operations of their businesses.

Cost of inputs and merchandise are seen as the greatest threat to profitability, followed closely by discounting and other sales incentives.

Approximately 50 percent of respondents have seen a rise in the cost of compliance with health, food and safety, health care, and environmental and sustainability regulations in the past year.

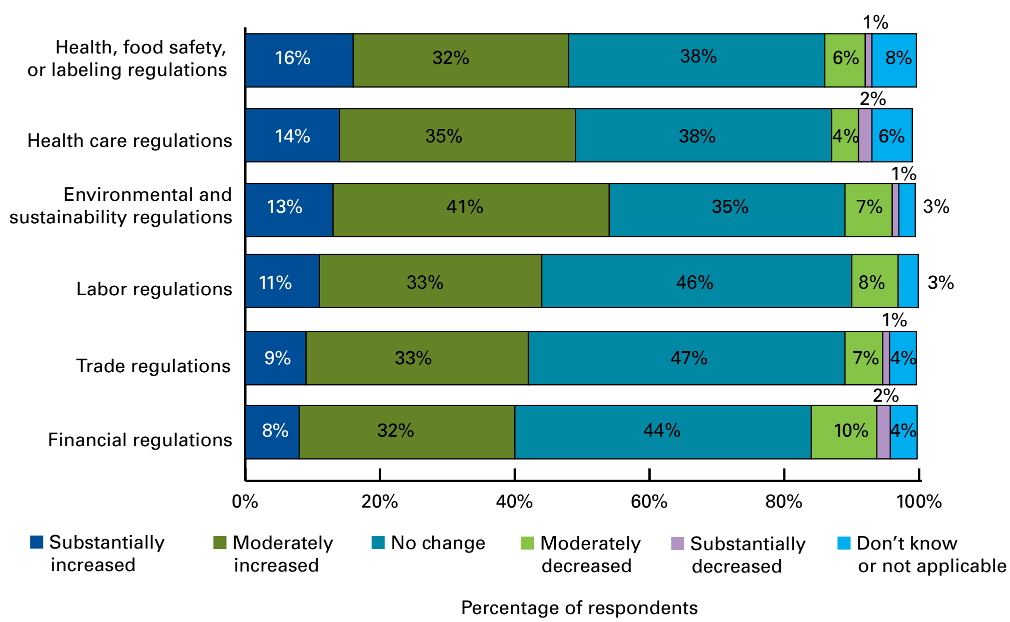
Impact of increased regulation

Finance executives say that their companies' cost of complying with various regulations has risen in the past year. Between 40 percent and 44 percent of respondents report a substantial or moderate increase in the cost of regulatory compliance with financial, trade, and labor legislation. Executives are more likely, however, to see increases in the costs of complying with the regulations that are tied most directly to their operations—such as regulations pertaining to health, food safety, or labeling; health care; or environmental and sustainability matters (see Figure 7).

Complying with regulations linked directly to core business activities may be particularly costly because they are often widely dispersed, diverse, and multi-jurisdictional. Regulations for consumer safety and labeling, for example, vary from one country to another, and companies that seek to sell a product in more than one country must overcome unique legal, linguistic, documentary, and other hurdles to comply with them.

Figure 7. Finance executives most often report rising compliance costs for regulations tied closely to their business operations (as opposed to more general commercial activities).

How has the cost of compliance with the following regulations changed in the past year?



Similarly, environmental and sustainability standards vary across jurisdictions, lines of business, and production processes. As a result compliance can be costly, time consuming, and operationally disruptive. This does not suggest that these and other regulations are not worthwhile. But the close link between the core of what it means to be in a consumer business and the regulations that govern production, manufacturing, product safety, and labeling has a direct bearing on both the cost and the risk of compliance with such regulations.

At the sector level, survey data indicates widespread increases in the cost of complying with environmental and sustainability regulations. In all sectors but two (luxury and consumer goods) respondents report a substantial or moderate increase in the cost to comply with sustainability and environmental requirements. Not surprisingly, companies in the food and drink, agribusiness, and restaurant and food services sectors are especially likely to have borne higher costs for complying with health, food safety, or labeling regulations.

In response to these rising costs and shifting government mandates, finance executives in consumer businesses frequently say their companies will focus on health, food safety, and labeling requirements and on sustainability initiatives in 2011. Queried on which one of six classes of compliance costs and risks will receive greatest focus in 2011, finance executives affirm their concern for the compliance activities that are tied most directly to operating their lines of business—ranking health, food safety, and labeling regulations (27 percent), environmental and sustainability regulations (22 percent), and financial regulations (19 percent) at the top of the list. Meanwhile, trade regulations (12 percent), health care reform (9 percent), and labor laws (9 percent) were seen as areas of lesser focus by respondents.

Companies emerging from downturn in a stronger position

So far, the survey results have revealed a formidable set of challenges for consumer businesses around the world. They must prepare for an increase in demand and do so with a limited ability to raise prices. They face a host of regulatory requirements that reach into their core business operations. And changing consumer market dynamics are creating intense pressure to formulate and execute new strategies for product innovation, marketing, distribution—and, ultimately, value creation. Companies will pursue these new strategies in the wake of an economic downturn and financial crisis that left many sectors of the global economy in a weakened position.

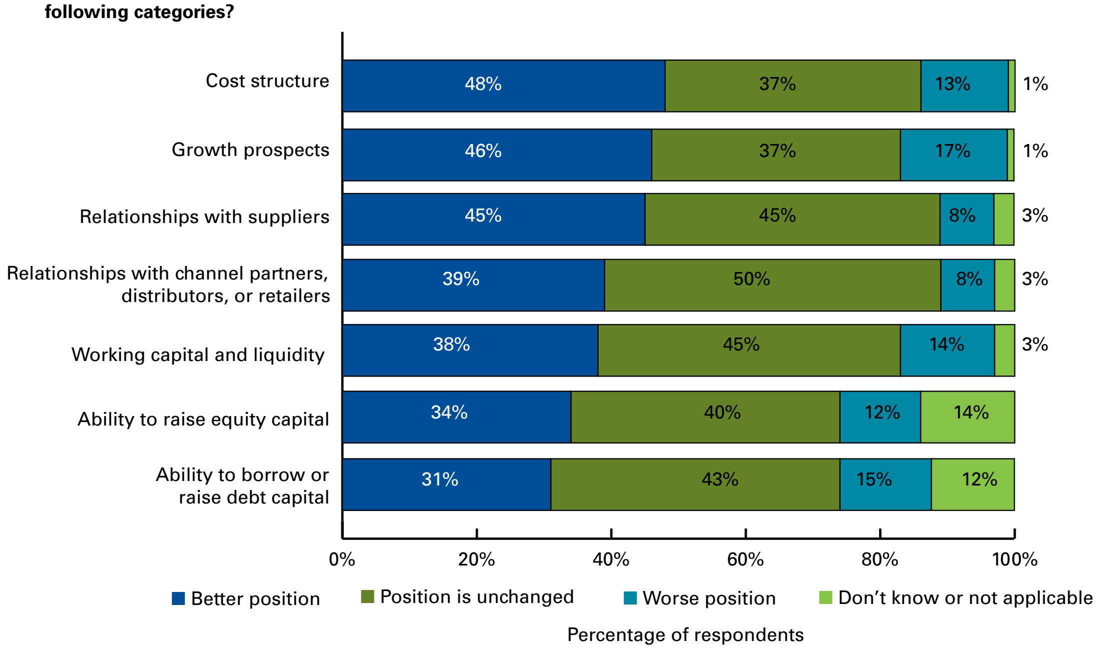
Data from this survey, however, indicates that many consumer businesses around the world are in fact emerging from the downturn in strong, not weak, positions. They have honed their cost structures, strengthened relationships with suppliers and channel partners, and improved their working capital and liquidity positions. Some effects of the financial crisis remain, to be sure. Companies are least likely, for example, to see improvement in their ability to raise capital through debt and equity issuance. While not all businesses are on solid footing, companies in this study indicate they are consistently stronger, or at least not weakened as a result of the downturn (see Figure 8).

On nearly all the attributes tested—cost structure, growth prospects, supplier relationships, partner relationships, working capital, and external capital access—respondents from Europe are less likely than the other regions to say they have emerged in a stronger position and are more likely to say they are in fact in a worse position. Clearly, the downturn has taken a substantial toll on European companies. Recovery in Europe has been further hampered by persistent uncertainty flowing from sovereign debt crises in the Eurozone.

Indeed, the management disciplines that consumer businesses have accumulated to withstand the downturn may well provide those companies with a strong and flexible base from which to implement their strategies in the months and years to come.

Figure 8. Despite three years of economic turmoil, finance executives see their firms in a healthy financial and operating condition.

In your opinion, has the economic downturn left your company in a worse, unchanged, or better position in the following categories?



Growing the business—a strategic outlook

Increasing market share through organic growth

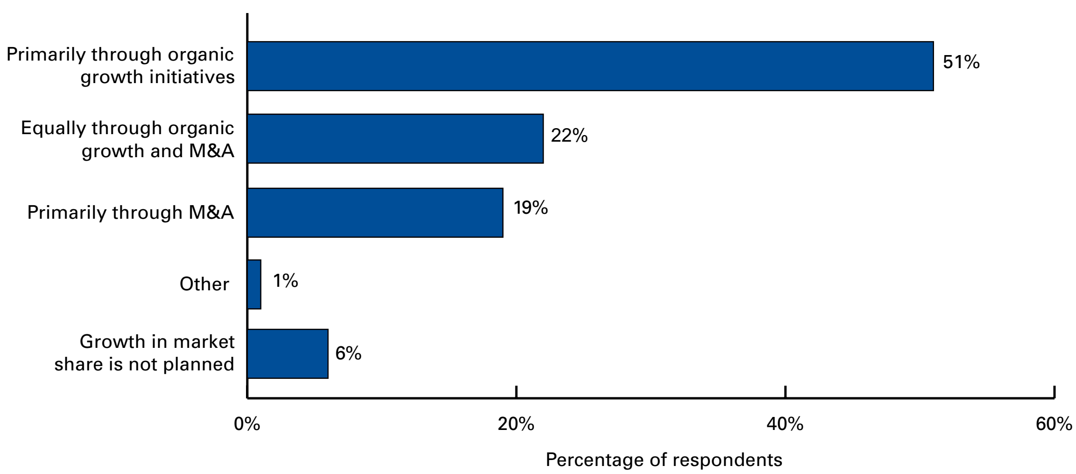
Finance executives at consumer companies see both opportunities for growth and threats to margins and market share. In response, companies are most likely to embrace organic growth strategies, although growth through acquisitions and hybrid strategies are planned in some segments. Queried on their companies' primary strategy for increasing market share in 2011 in their current markets, over half of respondents say they plan to grow organically, followed by merger and acquisitions (M&A) or hybrid organic/M&A strategies (see Figure 9).

Organic growth strategies are especially likely among respondents from the United States and Canada, where 76 percent of senior finance executives identify organic expansion initiatives as their primary intent for growth. Respondents from Asia-Pacific, Europe, and Latin America and Mexico also hold a preference for organic strategies, but are clearly more intent on using M&A to either supplement or cornerstone their plans to capture a greater share of their markets.

Twenty-five percent of respondents say their companies are very likely to merge with or acquire other companies in 2011.

Figure 9. Organic growth is the most common strategy for increasing market share, say senior finance executives.

How is your organization planning to increase market share in its existing geographic markets in 2011?



Factors for success

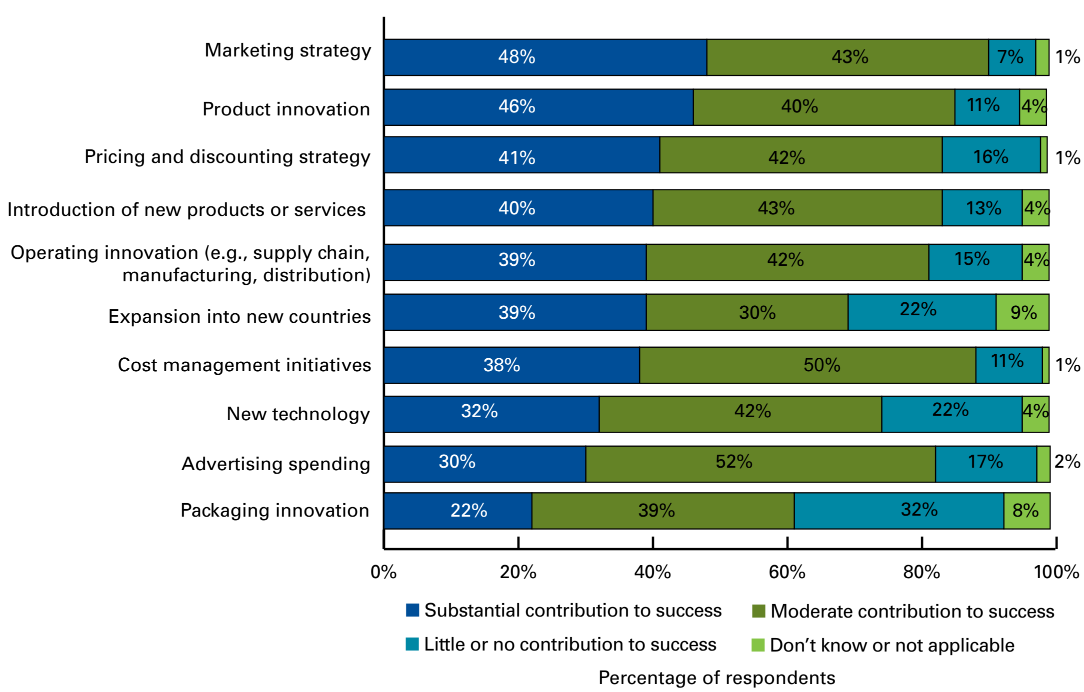
At many companies, however, organic growth seems to serve as a default strategy. By considering most business activities as core to the generation of value, companies can capture the economic value that stems from managing these activities well. With this in mind, we asked finance executives what level of contribution they expect from an array of business capabilities that are components of an organic growth strategy.

In aggregate, respondents are most likely to see greatest value stemming from marketing strategy and product innovation (see Figure 10). These findings may come as little surprise in a study among consumer-focused executives. What may be most notable, however, is that while growth-oriented items such as marketing strategy, product innovation, pricing and discounting, and new products and services figure prominently in companies' success, cost management initiatives are cited as substantial contributors by 38 percent of respondents and as moderate contributors by fully 50 percent of respondents. Only 11 percent say cost management will play little or no role. Thus, while companies will focus on market-facing growth to generate value, cost containment is clearly top of mind among senior finance executives.

Finance executives' views on the sources of business success—that is, which business capabilities are most likely to contribute to financial and operating performance—are consistently in line with their views on market opportunities discussed earlier in this report. Recall that respondents from the emerging economies of Asia-Pacific and Latin America and Mexico are especially likely to foresee growth in sales in both their domestic markets and in foreign markets. In their efforts to sell domestically, companies in the emerging economies are especially likely to seek to generate value from marketing strategy—defined broadly to include mastery of local and regional market requirements as well as marketing and sales programs.

Figure 10. Marketing and product innovation expected to contribute substantially to success, but cost control remains top-of-mind with senior finance executives.

In your opinion, to what extent will each of the following items contribute to your company's success in 2011?



New stores and additional distribution channels are the most likely strategies for entering new geographic markets in 2011.

Expansion to new geographies

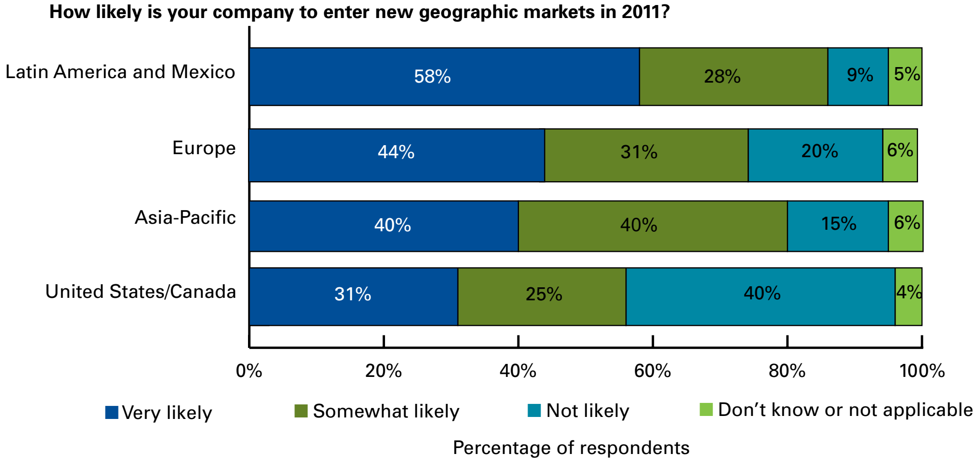
Companies in all regions are more likely to see expansion into new geographic markets as a factor of success than those in the US and Canada. Further, when asked how likely it was that they would expand to new geographies, companies in Latin America/Mexico, Europe, and Asia-Pacific all say they are substantially more likely to expand into new geographies than are companies in the US and Canada. In fact, 40 percent of respondents from the US and Canada say they are not likely to enter new geographies in 2011 (see Figure 11). One explanation for this difference may be that the combined US/Canadian economy is so large and well served with social and business infrastructure that it offers lower risk opportunities for growth than foreign markets do.

When expanding into new geographic markets, the companies surveyed said they are most likely to do so through organic growth rather than M&A, with 42 percent of respondents saying they plan to open new stores and 39 percent looking to add additional distribution channels, including online.

To support their execution of growth strategies—whether composed of organic initiatives, M&A, or a combination of the two—consumer-focused companies are likely to alter their internal business processes, infrastructure, and capabilities in 2011. Accordingly, we queried finance executives on the internal changes they are likely to make in the near term.

Figure 11. Companies in emerging economies are especially likely to pursue geographic expansion in 2011.

How likely is your company to enter new geographic markets in 2011?



Supply chain cost and efficiency

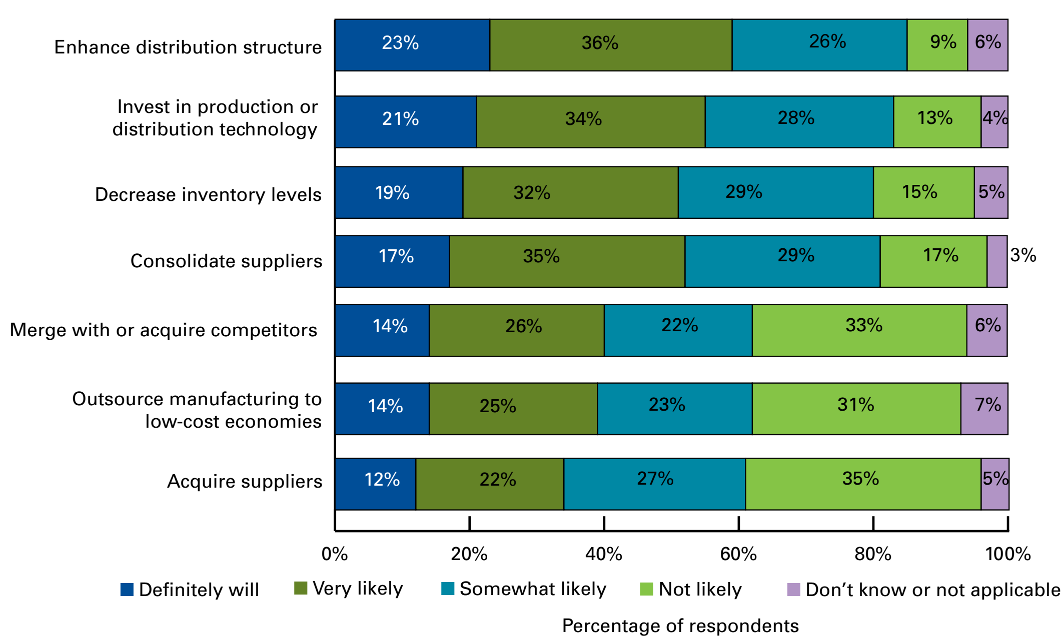
The supply chain forms much of the core of consumer businesses' ability to produce and deliver goods quickly and cost effectively. And finance executives say their companies have plans to improve their supply chains in the next two years with the objective of boosting efficiency and lowering costs.

The majority of all respondents say they will focus on optimizing current business processes and methods by making changes to technology infrastructure, lowering inventory, and curtailing the number of suppliers—each of which can have a material impact on working capital and supply chain efficiency (see Figure 12). Less likely are maneuvers that are perhaps more disruptive, costly, or risky, such as merging with or acquiring competitors or suppliers or outsourcing manufacturing to low-cost economies. Such tactics are by no means inherently unappealing, but finance executives indicate a preference for more incremental steps to improve supply chain efficiency.

The respondents in the emerging economies of Asia-Pacific and Latin America and Mexico indicated a more aggressive approach to improving their supply chains. For each of the initiatives in Figure 12, respondents from the emerging economies are substantially more likely to say they definitely will or are very likely to pursue such improvements in the next two years. In Latin America and Mexico, for example, 68 percent of respondents definitely will or are very likely to improve their supply chains by enhancing their distribution structure; 77 percent will or are very likely to invest in production and distribution technology, and 70 percent will or are very likely to consolidate their supplier bases. In many instances, companies in the emerging economies are investing in supply chain improvements because their growth prospects are so strong, and/or because their adoption of automation and enterprise technology most likely lags behind companies in the more industrialized economies.

Figure 12. Companies are most likely to improve supply chain efficiency by taking incremental steps with new technology, inventory management, and supplier consolidation.

Over the next two years, how likely is your company to engage in the following initiatives to improve its supply chain efficiency or costs?



Investments in information technology

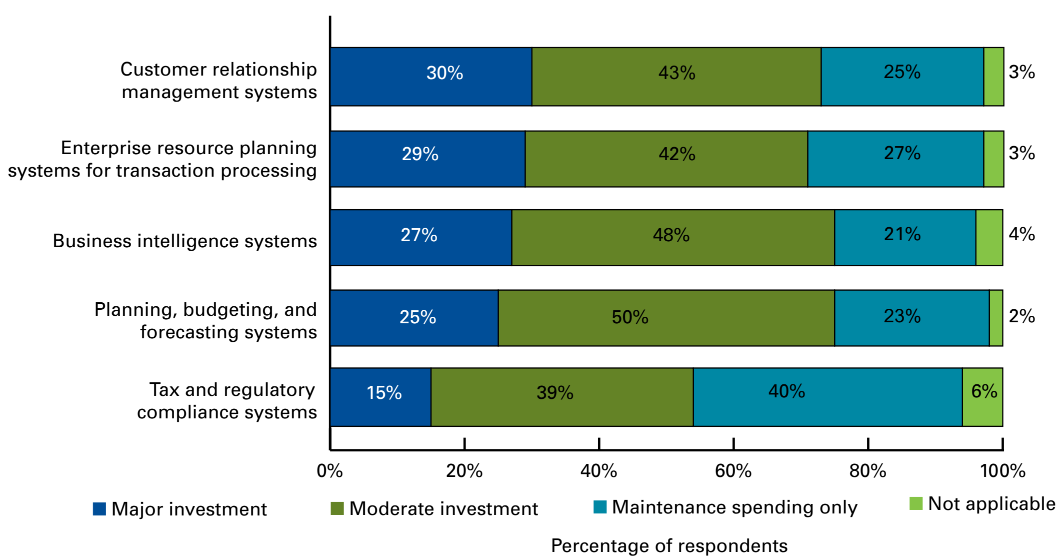
Many improvements in supply chain efficiency are closely linked with companies' information technology (IT) capabilities. Systems for enterprise resource planning (ERP), customer relationship management (CRM), planning, budgeting, and forecasting, and regulatory compliance each draw on and provide valuable information for supply chain optimization. Accordingly, investments in these classes of enterprise IT can make a substantive contribution to companies' abilities to improve supply chain efficiency and lower costs. Senior finance executives indicate they're most likely to spend on technology that is tied directly to operational excellence (such as ERP, which will receive major investment from 29 percent of respondents) or finding and pursuing growth opportunities, such as business intelligence (BI) (27 percent) and CRM (30 percent) (see Figure 13).

The largest companies—those with $10 billion or more in annual revenue—are most likely to invest aggressively in IT. Latin American/Mexican respondents are more likely to invest aggressively in ERP (39 percent), BI (42 percent), and CRM technologies (46 percent) than are their peers elsewhere, especially those in the United States and Canada.

On a sector level, ERP will receive major investment from companies in the alcoholic beverage (43 percent) and restaurant (37 percent) sectors. Food retailers and restaurants are likely to invest aggressively in BI technology (42 percent and 37 percent, respectively). CRM is particularly likely to receive major investment from restaurants (53 percent), non-food retailers (35 percent), and alcoholic beverage companies (36 percent).

Figure 13. IT spending will focus on systems to better understand markets and customers, and on operational excellence.

To what extent will your company invest in the following types of information technology over the next two years?



Changes within corporate finance

Within their own domain of the corporate finance function, survey respondents are most likely to foresee moderate, incremental change to core processes of the finance and accounting team. When asked about the level of change they see for an array of finance activities—including order-to-cash; procure-to-pay; planning, budgeting, and forecasting; and risk management, among others—finance executives are most likely to say their companies will pursue moderate, not substantial, change.

At the regional level, respondents from Asia-Pacific and Latin America and Mexico are generally more ambitious in their expectations for change within the finance function. In almost every case, Asia-Pacific and Latin American and Mexican respondents are more likely than respondents in North America or Europe to pursue substantial change in their core finance processes. In addition, respondents from Latin America and Mexico are especially eager to bolster the finance processes that are tied to working capital management and their ability to fund growth from ongoing business operations.

Changes in organizational structure and outsourcing

We asked about finance executives' plans to use shared services centers (SSCs) and/or outsourcing for administrative and production processes. We found that there are seldom steps that a majority of consumer-focused companies plan to take in the near term to improve their business operations, administrative efficiency, or process quality. On the contrary, companies are likely to alter their internal capabilities based on the company's current state, its business strategy, and its own internal requirements. Nonetheless, several noteworthy trends among the segments in this study reveal the business rationale behind the changes that companies plan for the future.

We queried finance executives on how likely they were to alter their organizations by establishing new outsourcing arrangements for administrative processes or for production processes, setting up SSCs, substantially reorganizing their lines of business, or, most dramatically, merging with or acquiring other companies. Among all respondents, the likelihood of these initiatives is approximately equal—that is, about one-third of respondents are very likely to pursue them, one-third are somewhat likely to do so, and one-third of respondents say their companies are not likely to carry out these initiatives at all.

However, large companies are more likely to pursue several of these initiatives. Forty-five percent of companies with US$5 billion or more in annual revenue are very likely to set up new shared services centers, while fewer than 30 percent of companies with less than US$5 billion in revenue anticipate doing so. Similarly, respondents from the largest companies are more likely to plan on setting up new outsourcing arrangements with third parties for production and operating processes. Thirty-eight percent of companies in the US$5 billion-US$10 billion segment are very likely to outsource production and operating activities, and 43 percent of companies with US$10 billion or more in annual revenue are very likely to do so.

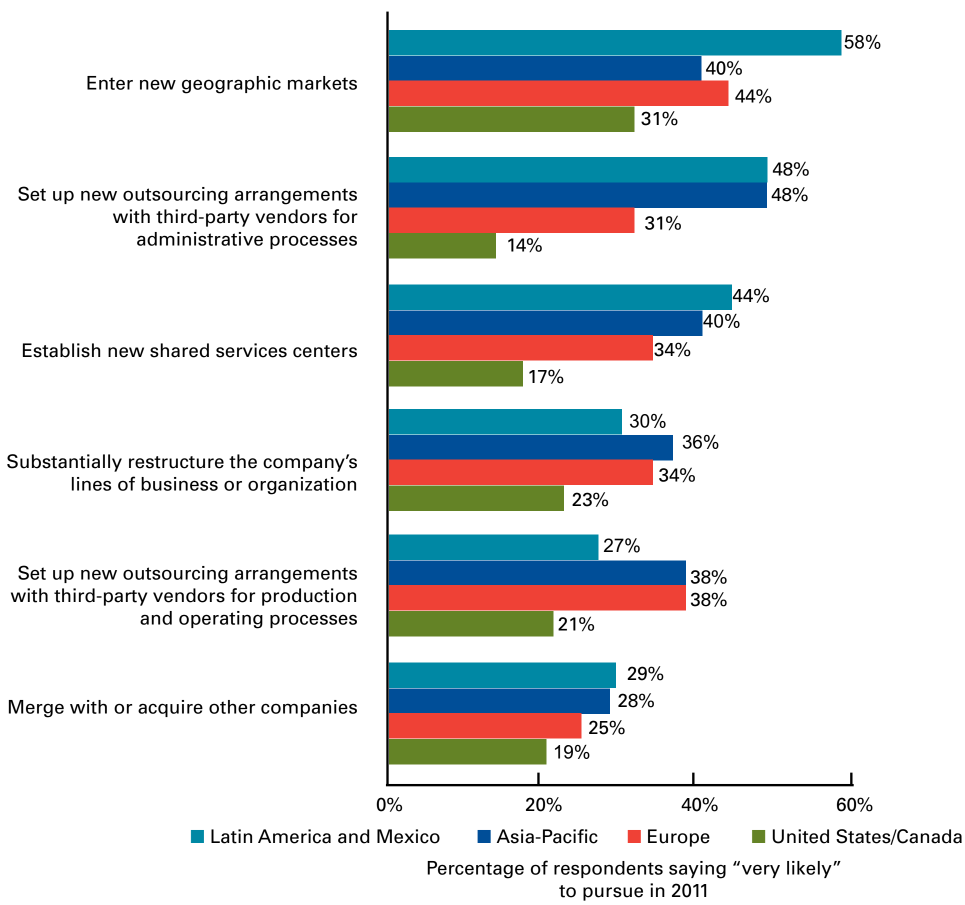
Large companies are also more likely to substantially restructure their lines of business or organization than the relatively smaller companies surveyed. In each of these three types of initiatives, company size is likely to contribute to the pursuit of each of them. Larger organizations have grown to a size where the economies of scale and quality improvement from consolidating activities into shared services centers outweigh the cost of setting up a centralized functional hub for business activities. Similarly, big companies are the ones most likely to have the sprawling and distributed organizations that require restructuring.

Viewed regionally, it becomes clear that companies in Latin America and Mexico and in Asia-Pacific are most likely to alter their capabilities for carrying out administrative and back office processes, either through outsourcing such activities to third parties or by consolidating them in new SSCs (see Figure 14). (Companies in these regions may not have adopted shared services centers as broadly as companies in the industrialized economies. In a separate question on companies' current use of shared services, 40 percent of US and Canadian respondents say they use SSCs for finance activities extensively, while 27 percent of those in Asia-Pacific, 16 percent in Europe, and 12 percent in Latin America and Mexico do so.)

Large companies are more likely to substantially restructure their lines of business or organization than the relatively smaller companies surveyed.

Figure 14. Respondents from Latin America and Mexico and Asia-Pacific are especially likely to alter how they carry out administrative and back-office activities.

How likely is your company to pursue the following initiatives in 2011?



KPMG's final thoughts

Consumer companies around the world that are emerging from the global downturn are anticipating top-line growth in the months ahead—that's the good news from this global survey of senior finance executives at consumer businesses. This study also finds that executives are especially likely to anticipate healthy growth in the emerging markets of Asia and Latin America. Amid this sense of guarded optimism, however, finance executives reveal concern for their ability to maintain profitability and to pass on price increases to their customers. This concern is clear in the first phase of the survey we conducted at the onset of 2011 and has been amplified by the second phase conducted in the wake of the crises in North Africa, the Middle East, and Japan. Executives are especially likely to say that commodities and energy—both their absolute prices and their price volatility—will be most affected by these crises. The dynamics of commodity and energy prices will have far-reaching impacts on production activities and the bottom line, and also on consumer spending and relationships with suppliers and customers.

Respondent sentiment suggests that consumer markets companies will enjoy opportunities for growth in the years ahead, however they'll pursue them in a more competitive environment in which manufacturers and retailers will expand into new domestic and foreign markets and sell to consumers whose behavior, spending, and demographic profiles are changing rapidly. Broad trends among consumers, including an aging population, the expanding middle class in emerging economies, and consumers' increasing use of technology, will offer opportunities for growth in revenue, market share, and profits. To generate this growth, however, companies in nearly all segments will need to reconsider and often recast their understanding of customers, markets, and their means of serving them.

There's no single solution for responding to structural changes in industries and customer segments. Every company has its own strategic and operating profile that calls for a unique response from the CFO and his or her management team. At KPMG, however, we believe that by harnessing the power of their vast amounts of information—the "big data" that resides within a company and its supply and demand chains—consumer business executives can derive the insight that leads to new markets, new strategies, and new operating models that will ultimately generate growth and profitability.

The power of "big data"

Companies in consumer businesses are awash in information on their markets, merchandise, and prices. They typically have millions of transaction-level data points from the point of sale, vast amounts of historical purchase and pricing data on customer segments and product categories, and untold volumes of data from their internal inventory, logistics, production, supply-chain, and enterprise resource planning (ERP) systems. And while companies are often able to find discrete data points in response to a need to answer a question—for example, "How much did we charge for SKU#042696 in 2007?"—they are far more limited in their ability to take full advantage of the latent value that resides within this vast sea of information. In our experience, companies have difficulty taking full advantage of their large pools of data in a systematic way.

The power of a company's "big data" is hard to overestimate. Using business intelligence technology, companies can derive a new understanding of customer preferences and satisfaction, changes in buying behavior, responses to price and discounting offers, and trade-offs among product and price configurations. Similarly, consumers' use of information technology—for example, nearly continuous access to the internet and the widespread use of social media and e-commerce—provides enormous amounts of information on customer behavior and changing preferences. Amid this explosion of data lie great opportunities for companies to learn more about who their customers are, what they want, and how they perceive a company's offerings. Similar potential for information value occurs on the supply side of consumer businesses, where detailed data on production inputs, merchandise, and vendors offers an understanding of the strengths, weaknesses, and risks in a company's operating model.

In recent years, consumer-focused companies have invested aggressively in building their information-technology systems and organizations to automate their outreach, service, and delivery to customers and their business activities to produce and deliver goods for use. As this research indicates, consumer businesses will now embrace growth strategies that are tempered by concern for costs, price elasticity, and profitability. On one hand, companies anticipate growth in foreign and domestic markets that are often composed of new consumers with new expectations and requirements. On the other hand, say finance executives, companies will have difficulty managing costs, increasing prices and controlling discounts, and maintaining profitability.

New models for IT delivery

One path to success, we believe, is to develop a demand-driven supply chain in which robust information on customer demand is tightly integrated with the supply chain of the business in real time. This integration often calls for companies to improve the quality and consistency of their sources of data and to adopt new technology for data analysis which reveals the useful patterns that reside within their massive data collections. Companies can expedite their progress down this path by giving careful consideration to alternative models of IT delivery—most notably, cloud computing—which can deliver the analytical insight and performance improvement required in dynamic consumer markets. In our experience, the right combination of cloud-based solutions and on-premises technology can provide the information companies need quickly and cost effectively. Deployment of technology in a cloud environment allows companies to reduce their operating and capital expenditures; release new technology and its information for management's use in a matter of weeks, not months or years; and build a demand-driven, customer-centric response to changing consumer markets.

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Global Head, Retail
KPMG

About KPMG and the Global Consumer Markets practice

KPMG is a global network of professional firms providing Audit, Tax and Advisory services. We have 138,000 outstanding professionals working together to deliver value in 150 countries worldwide.

KPMG is organized by industry sectors across our member firms. The Consumer Markets practice, which focuses on the Food, Drink and Consumer Goods and Retail sectors, comprises an international network of professionals throughout the Americas, Europe, the Middle East, Africa and Asia-Pacific.

This industry-focused network enables KPMG member firm professionals, with deep experience in the consumer markets sectors, to provide consistent services and thought leadership to our clients globally, while maintaining a strong knowledge of local issues and markets.

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About this report

At the onset of 2011, KPMG International and CFO Research Services (a unit of CFO Publishing LLC) conducted a two-phase survey to examine the outlook and perspectives of senior finance executives at consumer companies on the key issues affecting their industry.

In the first phase, we received a total of 291 complete survey responses from senior finance executives around the world. The respondents and the companies they work for are broken down as follows:

Sector

Food and drink	17%
Consumer goods	16%
Non-food retail	12%
E-commerce	11%
Clothing and apparel	10%
Food retail	8%
Agribusiness	7%
Restaurants and food service	7%
Luxury goods	6%
Alcoholic beverages	5%
Tobacco	1%
Other	1%

Region

Europe	30%
United States and Canada	28%
Asia-Pacific	21%
Latin America and Mexico	20%
Other	1%

Company size (annual revenues in US$)

$10B+	18%
$5B-$10B	12%
$1B-$5B	32%
$500M-$1B	31%
Less than $500M	6%

Title

Chief financial officer	29%
Director of finance	16%
CEO, President, or Managing Director	15%
Controller	14%
VP of finance	10%
Treasurer	7%
EVP or SVP of finance	5%
Other finance	4%

In April 2011, we executed a second phase of the survey among 162 senior finance executives. The demographics for this phase are as follows:

Sector

Consumer goods	40%
Non-food retail	15%
Food and drink	13%
Clothing and apparel	8%
Agribusiness	6%
Food retail	4%
Luxury goods	3%
Restaurants and food service	3%
E-commerce	2%
Tobacco	1%
Alcoholic beverages	1%
Other	6%

Region

United States and Canada	42%
Europe	29%
Asia-Pacific	20%
Latin America and Mexico	7%
Africa and the Middle East	2%

Company size (annual revenues in US$)

$10B+	19%
$5B-$10B	8%
$1B-$5B	22%
$500M-$1B	14%
$250M-$500M	14%
$100M-$250M	23%

Title

Chief financial officer	36%
Director of finance	24%
Controller	14%
VP of finance	7%
EVP or SVP of finance	4%
Treasurer	4%
CEO, President, or Managing Director	3%
Other finance	8%

Note: Percentages may not total 100 percent, due to rounding.

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